

Part (a) Calculate the total amount for employee benefits to be disclosed by SA-MM in the notes to the statement of profit or loss and other comprehensive income for FY2022.		Marks
<ul style="list-style-type: none"> <li>Ignore the disclosure requirements on related parties and comparative information.</li> </ul>		
<b>Note for 'profit before tax'</b>		
<b>Employee benefits – composition</b>	<b>Amount</b>	
<b>Gross salary</b>	<b>R50 000 000</b>	1
<b>Company contribution (R50 million x 35%)</b>	<b>R17 500 000</b>	
<b>Leave accrual</b>	<b>R43 600</b>	
<i>Gross salary</i>	<i>R200 000</i>	1
<i>With company contributions (R200 000 x 1,35%)</i>	<i>R270 000</i>	1
<i>Expected salary in FY2023 (R270 000 x 1,05%)</i>	<i>R283 500</i>	1
<i>Expected salary per workday (R283 500 / 300 days)</i>	<i>R945 per day</i>	1
<i>Total leave accrual (R945 x 20 employees (½) x 4 days (1) expected (IAS 19.16)</i>	<i>R75 600</i>	1 + 1
<i>Leave accrual movement recognised in profit or loss (R75 600 – R32 000)</i>	<i>R43 600</i>	1P
<b>Termination/retrenchment benefits</b>	<b>R871 000</b>	
<i>Retrenchment package – Admin (R65 000 x 3 employees)</i>	<i>R195 000</i>	1
<i>Retrenchment package – Factory (R60 000 x 10 employees)</i>	<i>R600 000</i>	1
<i>Salary per workday (R180 000 / 300 days)</i>	<i>R600 per day</i>	1
<i>Total unused leave paid (R600 x 10 employees x 6 days)</i>	<i>R36 000</i>	1
<i>Toolset (10 factory employees x R4 000)</i>	<i>R40 000</i>	1
<b>Other non-monetary benefits</b>	<b>R183 333</b>	
<i>Depreciation of self-manufactured SUVs used by executive directors</i> <i>[((670 000 - 560 000) / 2 years x 10/12) x 4]</i>		
<i>Cost of inventory becomes the cost of PPE</i>	<i>R670 000</i>	1
<i>Residual value (currently obtained for a 2-year-old SUV) (see definition in IAS 1)</i>	<i>R560 000</i>	1
<i>Useful life (period of use for SA-MM, not economic life)</i>	<i>2 years</i>	1
<i>Period for depreciation in the current year</i>	<i>10 /12</i>	1
<i>Total number of directors</i>	<i>4</i>	1
<b>TOTAL</b>	<b>68 597 933</b>	
	<b>Available</b>	<b>17</b>
	<b>Maximum</b>	<b>17</b>
	<b>Total for part (a)</b>	<b>17</b>

<b>Part (b)</b> Prepare all the journal entries SA-MM should process in its accounting records for FY2022 relating to the problems with the locally sourced microchips.	<b>Marks</b>		
<ul style="list-style-type: none"> <li>• Do not provide closing entries.</li> <li>• Do not provide journal narrations.</li> <li>• Ignore tax.</li> </ul>			
<i>Note to markers: If contingent assets are included in a candidate's solution, it should be marked negatively</i>			
<b>Journal entries:</b>			
	Dr	Cr	
Cost of sales (P/L)	5 250 000		1
Provision for warranty (SFP) (calc 1)		5 250 000	
<i>Recognition of expected loss on faulty microchips of vehicles sold before the reporting date</i>			
Cost of sales (P/L)	2 100 000		1
Inventory (finished goods) (SFP) (calc 2)		2 100 000	
<i>Recognition of write-down on motors with faulty microchips in inventory</i>			
<i>Note to markers: Narrations were not required, but have been added for the sake of completeness</i>			

<b>Calculations</b>			
<b>Calc 1: Provision for warranty costs</b>	<b>Per vehicle</b>	<b>Amount</b>	
		<b>R</b>	
Provision for warranty only in respect of the <u>30</u> vehicles already sold in FY2022	<b>30</b>		0.5
Cost: R15 000 (additional transport costs) + R150 000 (replacement costs: parts) + R10 000 (labour)	R15 000 R160 000		1 1
<b>Total</b>	<b>R175 000</b>	<b>5 250 000</b>	
<b>Calc 2: Write-down of inventory to net realisable value</b>	<b>Per vehicle</b>	<b>Amount</b>	
		<b>R</b>	
Write down only in respect of <u>20</u> vehicles still in inventory at the reporting date (50-30)	<b>20</b>		0.5
Expected selling price (fixed with dealerships)	R560 000	11 200 000	1
Costs to complete/replace microchips (excluding transport and renting costs as items not sold yet)	(R160 000)	(3 200 000)	1
Costs to sell	<u>(R5 000)</u>	<u>(100 000)</u>	1
Net realisable value	R395 000	7 900 000	
Cost of inventory (manufacturing costs)	R500 000	10 000 000	1
Write-down (NRV below costs)	(R105 000)	<b>(2 100 000)</b>	
<i>Note: There is no probable reimbursement from the supplier, as it was liquidated.</i>			
		<b>Available</b>	<b>9</b>
		<b>Maximum</b>	<b>9</b>
		<b>Total for part (b)</b>	<b>9</b>

Part (c)(i) Discuss the correct accounting treatment for the unpaid insurance claim of R2 million in the records of SA-MM for FY2022 in terms of IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> ; and		Marks
<b>Classification</b>		
1.	The fact that the full insurance claim was <b>not paid out and subsequently was referred to the OTSI</b> is indicative of the existence of a <b>contingent asset</b> .	1
2.	The outstanding claim represents a <b>contingent asset</b> as it is:	
2.1	<ul style="list-style-type: none"> <li>• a <b>possible asset</b> because the insurance company already paid R13 million as the full and final settlement, and it may be <b>only possible (not probable/ virtually certain) that the additional amount may be received</b> / there is a possible asset because the <b>insurance claim of R2 million has been disputed and has been referred to the OTSI</b>;</li> </ul>	1
2.2	<ul style="list-style-type: none"> <li>• that arose from <b>past events</b> which is the fact that insurance <b>claim was submitted</b> / The <b>claim was declined</b> for damages caused to the robotic arm / The <b>severe storm on 31 October 2022</b>;</li> </ul>	1
2.3	<ul style="list-style-type: none"> <li>• whose existence will be <b>confirmed</b> only by the occurrence of an <b>uncertain event</b> which is the fact that <b>the complaint is still under investigation by the OSTI</b>, and no ruling has been made as the ruling is only expected during May 2023;</li> </ul>	1
2.4	<ul style="list-style-type: none"> <li>• <b>not wholly within the control</b> of SA-MM because <b>SA-MM cannot control the outcome of the ruling to be made by the OSTI</b> and has agreed to accept that.</li> </ul>	1
<b>Recognition</b>		
3	As the outstanding insurance claim is a contingent asset, SA-MM may <b>not recognise</b> the asset (and the related income) at the end of FY2022.	1
<b>Disclosure</b>		
4.1	The inflow of economic benefits is <b>not probable</b> nor virtually certain because SA-MM is only <b>hopeful</b> that the claim of R2 million will be granted but is <b>not confident</b> that the entire claim for the full outstanding amount of R2 million will be successful.	1
4.2	Therefore, because the inflow is not probable, <b>no disclosure will be required</b> , however, disclosure may still be made if deemed appropriate.	1
	<b>Available</b>	<b>8</b>
	<b>Maximum</b>	<b>6</b>
	<b>Communication skill – appropriate style</b>	<b>1</b>
	<b>Total for part (c)(i)</b>	<b>7</b>

Part (c)(ii) Discuss why the amount of R2 million should not be taken into account as an accrual for tax purposes when calculating SA-MM's normal taxation for the 2022 year of assessment.		Marks
1.1	The R2 million would be taken into account for normal tax at the <b>earlier of receipt or accrual</b> .	1
1.2	The outstanding claim of R2 million is <b>not yet paid by year end</b> – it is thus <b>not a receipt</b> .	1
1.3	An amount has only accrued once the taxpayer has become <b>unconditionally entitled</b> to the amount (principle from Mooi case).	1
1.4	The outstanding claim of R2 million is <b>still under dispute</b> at year end as the Ombudsman for Short-Term has not yet made decision on the complaint.	1
1.5	The <b>R2 million is therefore deemed to not have accrued</b> in 2022 year of assessment, only the R13 million.	1
1.6	If the outstanding claim amount of R2 million is finalised in the 2023 year of assessment, then <b>the R2 million will only accrue in the 2023 year of assessment</b> once the claim is finalised.	1
1.7	Also the total insurance claim has not been quantified in the 2022 year of assessment. Generally where assets disposed of for unquantified amounts these are dealt with in terms of <b>s24M (Bonus)</b>	1
<b>Available</b>		<b>7</b>
<b>Maximum</b>		<b>4</b>
<b>Total for part (c)(ii)</b>		<b>4</b>
<b>Total for part (c)</b>		<b>11</b>

Part (d) Advise management on the following:			Marks
(i) The optimal sales mix to maximise the contribution of SA-MM in FY2023, and			
<ul style="list-style-type: none"> <li>Assume that production volumes will equal sales volumes and inventory quantities will remain unchanged in FY2023.</li> </ul>			
Maximise contribution	SUV	Sedan	
	R	R	
Cost price - manufacturing costs (given)	670 000	500 000	0.5
Less Fixed costs at 10% of manufacturing costs	(67 000)	(50 000)	1
Variable operating costs (given)	18 000	12 000	0.5
Total variable costs ( <i>not necessary to show</i> )	621 000	462 000	
Selling price ( <i>not necessary to show</i> )	750 000	560 000	
Contribution per vehicle	129 000	98 000	1
Cost of chips per vehicle (40%, 30%)	268 000	150 000	1
Contribution per R1 cost of microchips	0.4813	0.6533	0.5C
Rank	2	1	0.5P
From the above it is clear that profit will be maximised by making as many sedan vehicles as possible.			0.5
<b>Microchips available in FY2023 (total cost)</b>		<b>Available chips</b>	
Microchips per vehicle: SUV 3 300 x 1/3; Sedan 3 300 x 2/3			1
Current cost (1 100 x 268 000 + 2 200 x 150 000)		624 800 000	1C
Increase in microchips availability: 30% = Total volume available 624 800 000 x 1,3		812 240 000	0.5C
Manufacture maximum sedans (150 000)	<b>4 200</b>	630 000 000	1P
Thus, available for SUVs (268 000)	<b>680</b>	182 240 000	1C
Alternative: 1:7 (i.e. 4 200 / 680)			
			<b>Available</b>
			<b>Maximum</b>
			<b>10</b>
			<b>10</b>
<b>Communication skills – layout and structure</b>			<b>1</b>
<b>Total for part (d)(i)</b>			<b>11</b>

Part (d) Advise management on the following: (ii) Other factors it should consider before implementing the recommended mix.		Marks
<ul style="list-style-type: none"> <li>Assume that production volumes will equal sales volumes and inventory quantities will remain unchanged in FY2023.</li> </ul>		
1	Consider the <b>impact on market share</b> as a result of the <b>reduced volume</b> of SUVs as SA-MM would be manufacturing and selling more sedans relative to SUVs than in FY2022.	1
2	Will the lower sales volumes of SUVs <b>catch up</b> after the crisis with the semiconductors have been resolved?	1
3	How will the <b>recall of sedans</b> affect the projections of sedan sales?	1
4	Are <b>customers loyal</b> ? Would they be prepared to wait for SUVs that could be a year late? Are there <b>alternatives</b> available to customers in the SUV market?	1 1
5	Are there any <b>fixed costs</b> that would be <b>reduced because fewer SUVs</b> are being manufactured?	1
6	What would be the <b>effect of supply and demand</b> on the price of both vehicles?	1
7	Consider the <b>impact on staff</b> : <ul style="list-style-type: none"> <li>Would <b>more staff needed</b> to be <b>hired</b> for the increased demand in Sedans or can <b>redundant SUV</b> staff assist?</li> <li>Would new staff or re-allocated SUV staff require <b>training</b>?</li> <li>Would redundant SUV staff need to be <b>retrenched</b>.</li> </ul>	1
8	Does SA-MM have <b>contracts with the dealerships</b> ? Will there be <b>penalties</b> if not enough of a type of vehicle is supplied? Is the minimum dealership demand fixed or flexible?	1
9	Given the drastically deteriorating conditions of SA roads, the demand for SUV's might increase, putting more pressure on maintaining market share given the constraint.	1
10	Another perspective is that given the <b>deteriorating economy, inflation, increasing fuel price</b> etc. the <b>demand for Sedans</b> might however increase.	1
11	The effect of <b>delays on imports</b> : <ul style="list-style-type: none"> <li><b>Other vehicle brands</b> also require the microchips which intern puts more pressure on the availability, the shortage may cause a <b>price war or excessive increases</b>.</li> <li><b>Pandemic measures</b> still enforced in <b>China</b> may <b>further delay</b> microchip production and timing of availability.</li> </ul>	1 1
12	Are other <b>alternative local suppliers or trials</b> for microchip manufacturing being considered?	1
<b>Available</b>		<b>14</b>
<b>Maximum</b>		<b>5</b>
<b>Total for the part (d)(ii)</b>		<b>5</b>

Part (e) Calculate the taxable income of SA-MM for its 2022 year of assessment by starting with the profit before tax of R45 million.		Marks	
<ul style="list-style-type: none"> <li>• Ignore sections 5, 9 and 10.</li> <li>• Indicate the accounting adjustment separately from the tax adjustment in respect of each item.</li> <li>• Indicate any accounting adjustments for depreciation separately from impairments, if any.</li> <li>• Include nil effects and provide brief reasons for the nil effects in your answer.</li> <li>• Ignore the unpaid insurance claim of R2 million and assume that the R13 million claim paid on 10 December 2022 was the final insurance claim amount accepted by both parties.</li> </ul>			
(Numbered per information in the scenario)		Amount	
		R	
Accounting profit before tax (given)		45 000 000	
<b>3. Employee benefits</b>			
Retrenchment packages including tools sets correctly deducted in terms of s11(a) (no adjustment given as amounts are deductible for tax purposes)		0	
<b>Accounting</b>			
Leave accrual/expense reversed (part (a) above)		43 600	1C
<b>Tax</b>			
<b>No deduction</b> for normal leave accrual/expense in terms of s23(e) as it is <b>provision</b> or deduction only allowed when <b>paid</b> in terms of s7B.			
<i>Except for leave balance paid out to retrenched factory workers (included in retrenchment package amount)</i>		0	1
<b>4. Luxury SUVs used by the directors:</b>			
<b>Accounting</b>			
Add back depreciation of directors' SUVs (part (a) above)		183 333	1C
<b>Tax</b>			
s 11(a) deduction: Cost incurred in respect of SUVs (R670 000 x 4)		(2 680 000)	1
Add back: Closing stock (s 22(1))		2 680 000	1
<b>No s22(8) recoupment</b> as the trading stock is gross income <b>par (iA) trading stock</b> in terms of proviso proviso (d) <b>to s22(8)</b>			1
<b>6. Land and manufacturing building</b>			
<b>Accounting</b>			
Reversal of previous revaluation decrease recognised in P/L (R3 000 000 – R2 800 000)		(200 000)	1
<b>Tax</b>			
No deduction on <b>Land capital of nature</b> , and no capital allowance is allowed on land		0	1

<b>Accounting</b>			
Add back: Building - depreciation reversed		671 429	
Cost	17 000 000		
Depreciation until 31 Dec 2021 (R17 000 000 - R2 000 000) (1) / 30 (1) x 2 years (1)	(1 000 000)		1 + 1 + 1
Carrying amount at the beginning of the year	16 000 000		
Depreciation for FY2022 (16 000 000 (above) - 11 300 000 (1)) / 7 (1) years remaining (change in accounting estimate for residual value and useful life)	(671 429)		1 + 1
<b>Tax</b>			
s 13(1) capital allowances: Building 17 000 000 x 5%		(850 000)	1
<b>7. Manufacturing Plant:</b>			
<b>Tax</b>			
No adjustment for s11(d) on repairs on the building is same for Acc & Tax (given)		0	
<b>Accounting</b>			
Add back: Plant - depreciation reversed	Calc 2	92 529 108	
<b>Rest:</b> R967 500 000 (1) x (3 000 + 300) (1) /35 000 vehicles produced	91 221 429		1 + 1
<b>Old robotic arm:</b> R12 500 000 x 3 000 (1) /35 000 (1) vehicles produced	1 071 429		1 + 1
<b>New robotic arm:</b> R12 600 000 (1) x 300 (1) /16 000 (1) vehicles produced	236 250		1 + 1 + 1
<b>Or</b>			
<i>Plant: R980 000 000 x 3 000/35 000</i>	84 000 000		
<i>New robotic arm: R12 600 000 x 300/16 000</i>	236 250		
<i>Rest: R980 000 000 – R12 500 000 = R967 500 000 x 300/35 000</i>	8 292 858		
Add back: Plant: impairment/loss on de-recognition of old robotic arm reversed (12 500 000 x (35 000 - 15 000 - 3 000) (1) /35 000) or 12 500 000 – 12 500 000 x (15 000 + 3 000)/35 000		6 071 429	1C
<b>Tax</b>			
s12C capital allowances Plant (including old robotic arm) - 20% x R980 mil		(196 000 000)	1
<b>Accounting</b>			
Add back: Depreciation on replacement robotic arm (included above)		0	
<b>Tax</b>			
Deduct: s 11(e) wear and tear on the replacement robotic arm: (s 12C is not allowed because the robotic arm was previously used by the taxpayer)			
Acquisition cost of replacement robotic arm:	5 000 000		1
Improvements:	7 600 000		1
Cost price of replacement robotic arm:	12 600 000		
Calculation of s 11(e):	x 1/12		1
	x 1/4		1
		(262 500)	



Plant - recoupment / loss on disposal ( <i>see next note</i> )			
<b>8. Insurance claim</b>			
<i>Note: Required states that the R2 million outstanding should be ignored.</i>			
<b>Accounting</b> Deduct: Insurance income in P/L (IAS 16.65, 66(c)) reversed		(13 000 000)	1
<b>Tax</b> s 8(4)(a) - recoupment of the robotic arm on disposal in terms of		10 000 000	
Selling price limited to cost price	12 500 000		1
Less: Tax Value (R12,5mil cost less R10m allowances of 40% + 20% x 2 years))	(2 500 000)		1
Recoupment*	10 000 000		
<b>Tax</b> The insurance proceeds are capital in nature and should not be included in gross income.			
Taxable Capital Gain			
Selling price	13 000 000		1
Recoupment	(10 000 000)		1P
	3 000 000		
Less: Base cost ( <b>cost of R12,5mil less R10mil allowances</b> )	(2 500 000)		1P
Capital gain*	500 000		
	80%		1
Taxable capital gain		400 000	
* The recoupment and capital gain cannot be deferred as the receipt/accrual (R13m) is more than the cost of the replacement asset (R12,6m) in terms of par 65(d)(i)			1
<b>Tax loss</b>		<b>(55 457 201)</b>	
		<b>Available</b>	<b>35</b>
		<b>Maximum</b>	<b>34</b>
		<b>Communication skills – presentation; logical argument</b>	<b>2</b>
		<b>Total for part (e)</b>	<b>36</b>

Part (f)	Discuss the ethical considerations for the individual directors and the board concerning the use of specialised software in SA-MM's Beat-till Diesel engine vehicles.	Marks
<ul style="list-style-type: none"> <li>Ignore King IV in your answer.</li> </ul>		
1.	<p>The directors should have considered that as directors they must act in the <b>best interest of the company in good faith and a degree of care skills and diligence</b> (fiduciary duty) in terms of the Companies act,</p> <ul style="list-style-type: none"> <li>which they did not do due to acting in their <b>own personal interest</b> to receive bonuses.</li> </ul>	1 1
2.	<p>The gas (nitrogen oxide) being emitted, is a poisonous, highly reactive gas which could be <b>detrimental to the health of the public</b></p>	1
3.	<p>The emission of the <b>gas is damaging to the environment</b>, as the emission is currently 40 times more than emission on test results.</p>	1
4.	<p>SA-MM <b>did not comply with legislation i.e., the South African Carbon Tax Act</b>. The emissions reported were inaccurate, resulting in the incorrect carbon tax being levied and paid by SA-MM.</p>	1
5.	<p>Installing specialized software to deliberately provide misleading information that would not only mislead consumers but also the tax authorities, in an effort to gain global recognition and improved bonuses is a <b>case of fraud</b>, which is illegal in terms of <b>Common Law</b>, and consequently also unethical.</p>	1
5.	<p>In the short-term the CEO, COO and other directors will <b>receive an annual bonus based</b> on the manipulated 'favorable carbon footprint' but</p> <ul style="list-style-type: none"> <li>In the long-term if disclosed this will have a <b>negative impact</b> on the annual bonuses of the executives.</li> </ul>	1 1
6.	<p>The directors are not acting in a <b>straightforward and honest</b> manner as two of the executives were aware of the faulty devices and</p> <ul style="list-style-type: none"> <li>yet <b>did not disclose</b> any of this information to the board or the broader public.</li> </ul>	1 1
7.	<p>SA-MM is considered the most trusted corporate brand and among the world's most socially responsible companies and one of the models is the 'car of the year'. <b>The default software improved SA-MM's corporate image and increased the profit of SA-MM as customers probably purchase the environmentally friendly Beat-till Diesel engine model.</b></p>	1
8.	<p>The two directors would be sacrificing the mission or mandate of SA-MM by not only failing to implement production strategies to ensure low carbon footprint but will also create a <b>false impression of the quality of the product</b> that SA-MM delivers.</p>	1
9.	<p>The directors and the board must consider whether there is any <b>internal code of conduct</b> that they need to adhere to in responding to the matter.</p>	1
<b>Considering the impact</b>		
8.	<p>If the situation becomes public, this could potentially lead to negative effects (bad for self) as the <b>relationships with customers and shareholders</b> could deteriorate in the following ways:</p> <ul style="list-style-type: none"> <li><b>Reputational damage</b>, if it is revealed that the directors knew about the omissions yet did not disclose it</li> <li>SA-MM could <b>lose the award the company won in 2020</b>;</li> <li>Customers could take <b>legal action</b> against SA-MM leading to negative consequences, such as <b>lawsuits and legal costs</b>;</li> <li>Once this becomes public, and when SA-MM withdraws the vehicles, it will result in <b>increased costs</b> to SA-MM for 'calling back' the vehicles and replacing the faulty software and/or devices on the 500 000 units in the market. (Bad for the company)</li> </ul>	1 1 1 1

	<ul style="list-style-type: none"> <li>• The <b>value of the vehicles</b> can also decrease if the demand for these vehicles decreases. SA-MM stands to make significant financial losses due to the write-off of vehicles that are manufactured and produce high CO2 emissions, that would not have a realizable value due to potential danger not only to the natural environment, but also public health (both of which are stakeholders of SA-MM).</li> <li>• <b>Additional taxes (and possibly penalties)</b> will be payable on the increased carbon emissions.</li> <li>• SA-MM and the directors <b>can be held accountable</b> (Liable also in terms of section 77 of the Companies act) and take responsibility for the costs associated with not disclosing this specialized software.</li> </ul>	1  1  1
10.	The Board of directors should <b>consider</b> which <b>corrective steps</b> should be taken to address the ethical problem e.g., the specialised software should be disclosed, the tax returns must be resubmitted with the correct emission levels)	1
	<b>Available</b>	<b>22</b>
	<b>Maximum</b>	<b>10</b>
	<b>Communication skills – appropriate style</b>	<b>1</b>
	<b>Total for part (f)</b>	<b>11</b>
	<b>TOTAL FOR PART II</b>	<b>47</b>
	<b>TOTAL FOR THE PAPER</b>	<b>100</b>